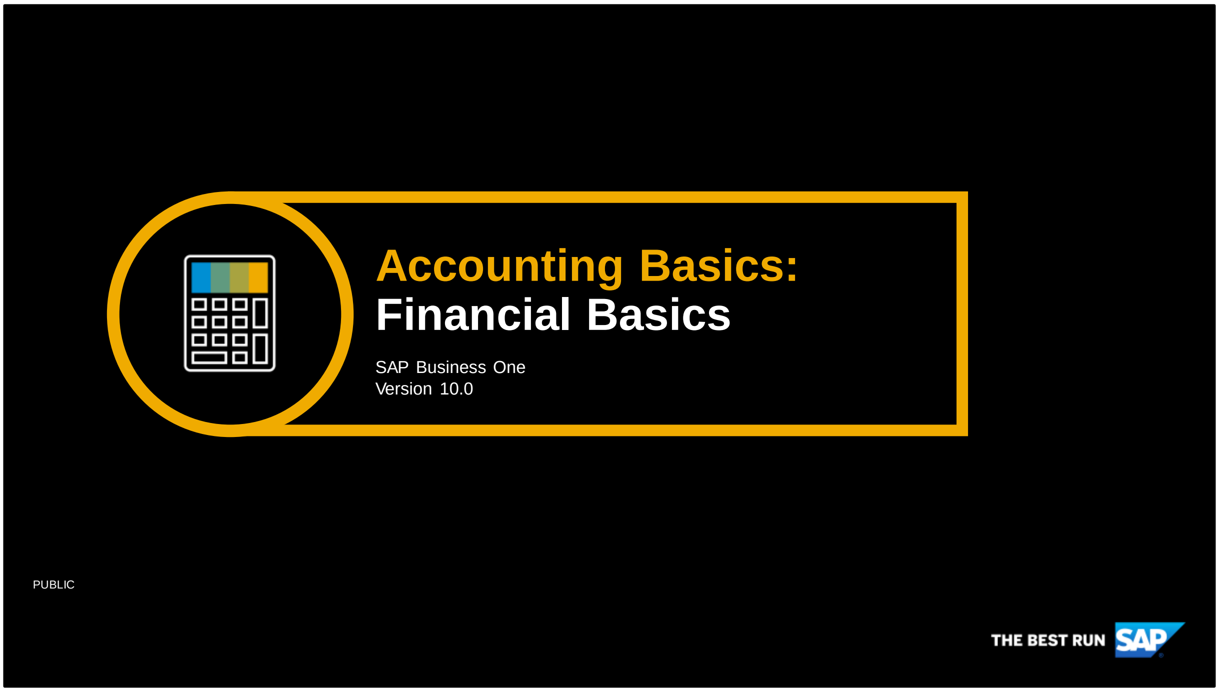


Welcome to the Financial Basics topic.

Objectives

At the end of this topic, you will be able to:

- Discuss some general accounting conventions.

In this topic, we will cover some general accounting conventions and give examples of the automatic journal entries that are created during the sales processes.

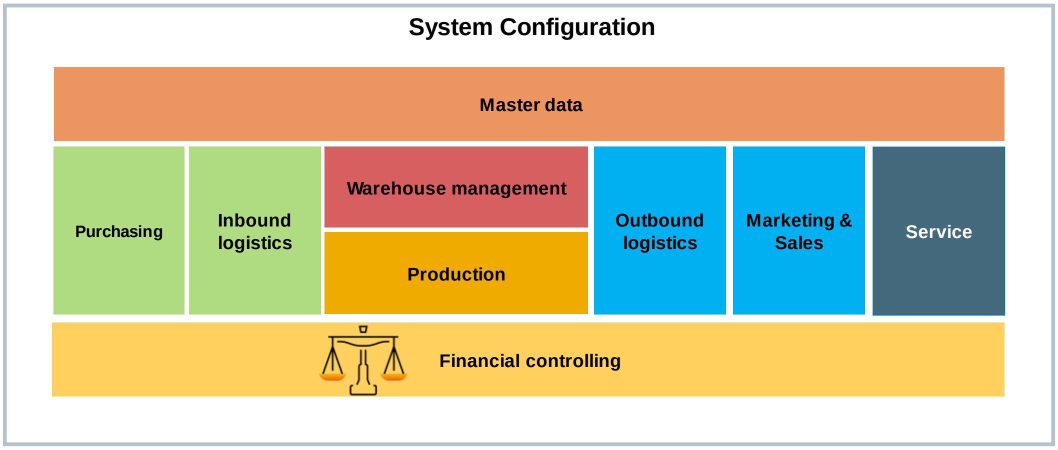
Business Scenario

You are implementing SAP Business One at a new customer, OEC Computers:

- Your main contact in the customer site is the accountant, Maria.
- Maria asks about the way SAP Business One handles the financial accounting processes.
- She wants to make sure she understands the big picture so she can report on business results.

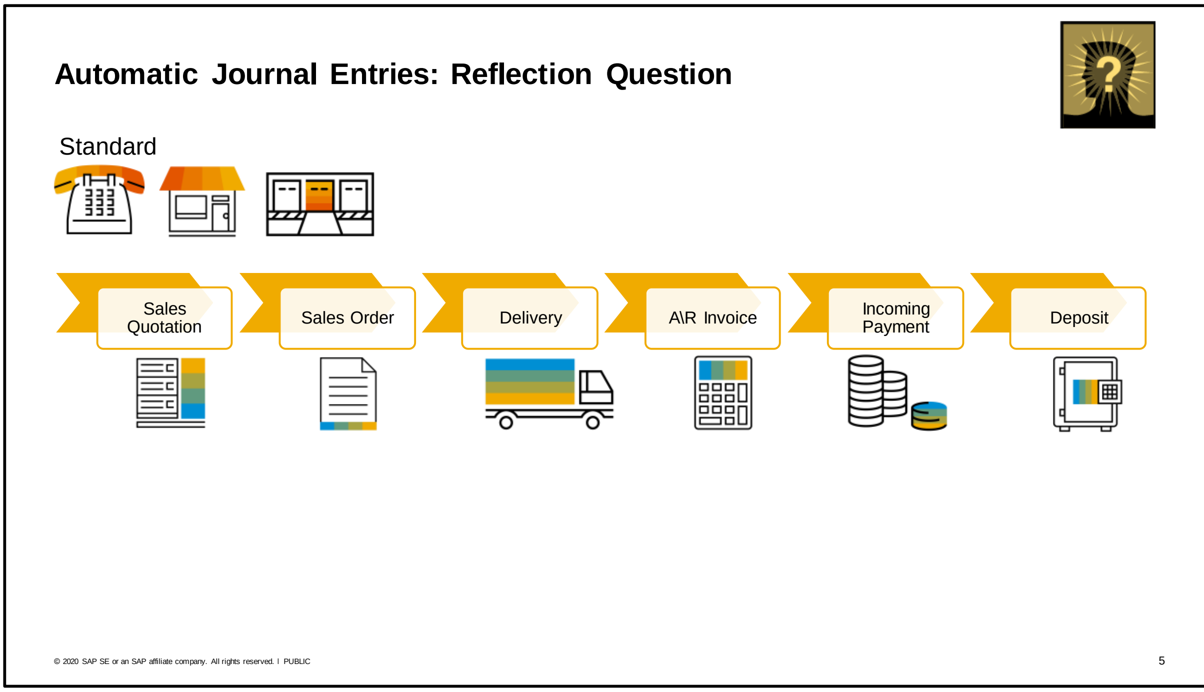
Imagine that you are implementing SAP Business One at a new customer OEC Computers. Your main contact is the OEC Computers accountant, Maria.
Maria is very interested in the implementation and asks you about how SAP Business One handles the financial accounting process.
She wants to make sure she understands the big picture so she can report business results to the company owners each period.

Finance Basics

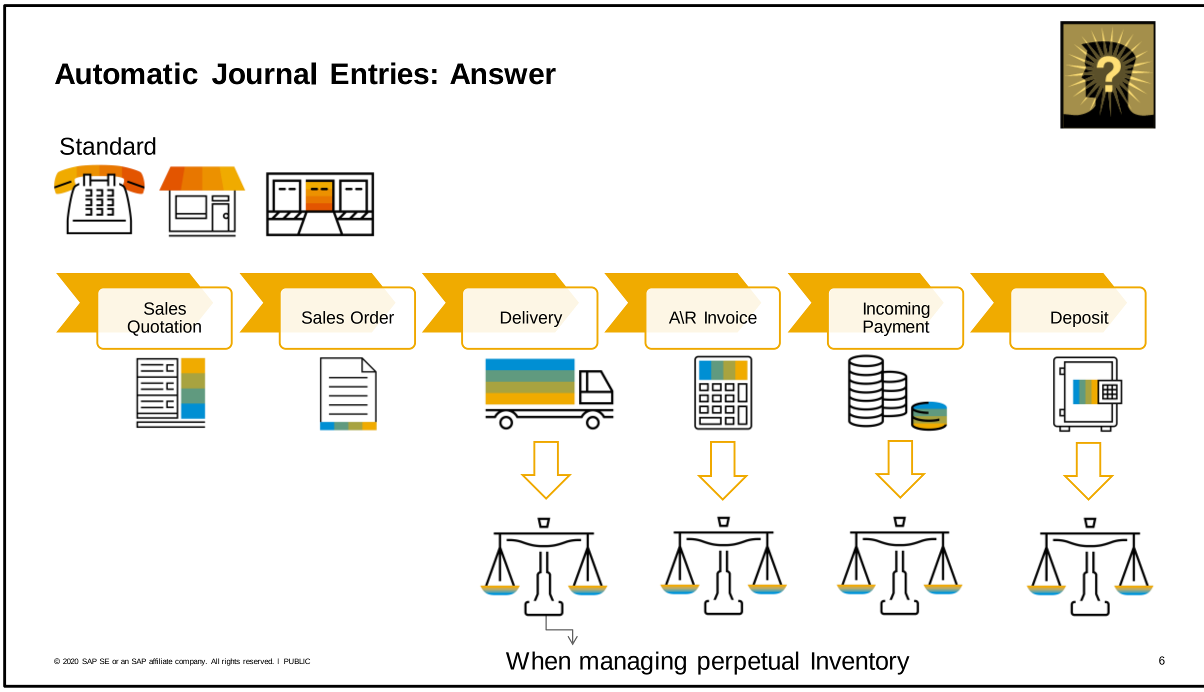


Let us discuss some financial basics.
Every business transaction is recorded in the company's books.
This allows you:
- To manage your company effectively with the option of producing financial reports.
- To report the business transactions to the authorities.

Every business transaction results in a value exchange:
- A certain account increases value and another decreases value, resulting in the recording of balancing debit side and credit side postings.



In other topics we learned about the documents in the sales process and their consequences on bookkeeping.
To review this process let us try to answer the following question:
In a standard sales process which documents affect the accounting system?



These are the documents in the sales process that create automatic journal entries and therefore affect the accounting system: the delivery, the A/R invoice, the incoming payment and the deposit. Note that the delivery only creates an accounting posting if you are using perpetual inventory.

A/R Invoice Journal Entry

	Debit	Credit
Customer account	105	
Tax account		5
Revenue account		100

In SAP Business One, a journal entry is automatically posted for many documents during the sales, purchasing and inventory processes.

Now let us assume for a moment that we are in a non-perpetual inventory system in order to keep our example simple. In that case, in our sales process example, the A/R Invoice automatically creates the following journal entry:

- There is a debit to the customer account for the total price of the sale.
- There is a credit to the tax account for sales tax and a credit to the revenue account for the sales price (excluding tax).

You have the option to split the journal entry posting by document lines. That is, rows with the same G/L accounts are not grouped in the created journal entry. One row in a journal entry is linked to one row in the marketing document.

To enable this option, in the *Document Settings* window, under the *General* tab, choose the *Split* option in the *Split Journal Entry Posting by Document Lines* field.

Let us focus on the debit side. Each transaction registered for the customer account affects the customer account balance. Now let us look at the customer account in more detail.

The Account Balance

Customer XXXX7	Debit	Credit	Origin
	105 Debit		A/R Invoice
	600 Debit		A/R Invoice
	400 Debit		A/R Invoice
		705 Credit	Incoming Payment
	200 Debit		A/R Invoice
	100 Debit		A/R Invoice
Account Balance	**700 Debit**		

This is an example of the customer account.
The account balance represents the difference between the total debit transactions and the total credit transactions recorded for that account.
The transaction summary or the balance of a certain G/L account or business partner is the initial information the accounting system can provide about the business.
In the graphic, we see that the total debits are greater than the total credits, so the account has a debit balance.
Previously, we mentioned that in each journal entry a certain account increases value and another decreases value, resulting in the recording of balancing debit side and credit side postings.
The effect on the account balance would be:

- Assets, Expenses, and Drawings accounts are generally in debit.
- Liability, Revenue, and Capital (Equity) accounts are generally in credit.

Account Types

		Debit Accounts		Credit Accounts	
		▲= increase ▼ = decrease	Typical Balance	▲= increase ▼ = decrease	Typical Balance
Balance Sheet Accounts	Assets	▲	Bank Account, Accounts Receivable	▼	
	Liabilities	▼		▲	Accounts Payable
	Equity/ Capital	▼		▲	Reserves
Profit and Loss Accounts	Expenses	▲	Rent, Electricity	▼	
	Revenues	▼		▲	Sales Revenue

Here, we see the typical account balance of the different account types.
For example, let us look at the value exchange for assets and liabilities.
For assets:

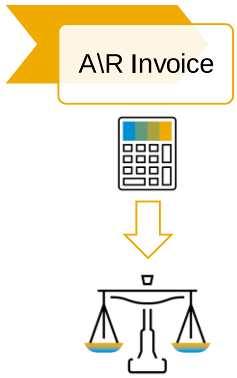
- Debit transactions always increase the asset value.
- Credit transactions always decrease the asset value.

For liabilities:

- Credit transactions always increase the liability.
- Debit transactions always decrease the liability.

We will discuss the different account types in another course.

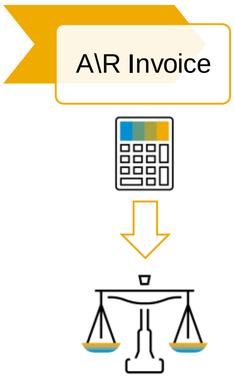
Value Exchange: Reflection Question



	Debit	Credit
Customer account	440	
Revenue account		440

In a typical A/R invoice, what is the effect of the debit and credit amounts on the involved account balances?
Once again we will make some assumptions to keep the example simple: Let us assume that the customer is tax exempt and that this is a non-perpetual inventory system.

Value Exchange: Answer



	Debit	Credit
Customer account	440	
Revenue account		440

The two accounts increase their values: ▲

The answer is that the two accounts increase their values.
The customer account is considered an asset so any debit to this account increases the account's value.
A credit to the revenue account, as we saw on the previous slide, increases the account's value.
Note that you can preview the corresponding journal entry posting and the involved accounts before you add a document that generates journal entry. You can do so by choosing the Journal Entry Preview icon from the toolbar or by right click the document and choosing the Journal Entry Preview option.

Summary

Here are some key points:

The account balance represents:	• The difference between the total debit transactions and the total credit transactions recorded for that account.
In each journal entry:	• A certain account increases value and another decreases value • The debit side and the credit side balance.
Assets, Expenses, and Drawings accounts are generally in:	• Debit
Liability, Revenue, and Capital (Equity) accounts are generally in:	• Credit

Here are some key points to take away:
The account balance represents the difference between the total debit transactions and the total credit transactions recorded for that account.
In each journal entry a certain account increases value and another decreases value and the debit side and the credit side balance.
Assets, Expenses, and Drawings accounts are generally in debit.
Liability, Revenue, and Capital (Equity) accounts are generally in credit.